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Like other Latin American countries, Costa Rica too has benefitted greatly from high coffee prices and it, too, has a political question, the answer to which should begin to appear when a Presidential election takes place there toward the end of July and the outlook for an orderly solution of which is substantially improved by the relatively high degree of basic stability that must be borne in mind in any consideration of this country. Under the circumstances, Costa Rica would appear to be a small but interesting market to the American exporter; to the capital investor, the size of the country may in itself be a limiting factor, although if this is disregarded, the possibilities likewise seem interesting although necessarily, of course, subject to close scrutiny.

To deal first with the somewhat complex political situation, mention needs be made by way of background to a small group which some years ago came to accept the leadership of Jose Figueres, and a program by which he aimed to raise the country's standard of living. In 1948 Costa Rica unfortunately fell under the control of Communists, from whose grip this Figueres group liberated the country, in its first - and violent - revolution. Thereupon Figueres took over in good faith as Provisional President, pending the drafting of a new Constitution and the election of a new President thereunder, and initiated a program, some of the high spots of which included the nationalization of the country's banks, a 10% capital levy across the board, and the permanent replacement of the Army by a small civil Police force whose sole function was the maintenance of internal order. Eighteen months later, upon completion of a new constitution, Figueres gave ample evidence of what his followers point out as his basically democratic nature by disregarding a clear opportunity to continue on in power and stepping aside in favor of a freely-elected President.

That President's term of office over the past four years has been highly beneficial to Costa Rica from almost every point of view, and has brought the country to a new degree of prosperity, as will be subsequently brought out in this report. Now, however, his term is nearly up, and as a result there is a Presidential campaign going on between Figueres on the one hand, representing what may be most conveniently and broadly labelled the liberal point of view, opposed by a Conservative candidate on the other. Figueres, in his middle forties, is making an active fight; his opponent, aged about 70, is doing very little campaigning but is reportedly basing his hope for victory on what in effect would be a negative vote against Figueres. The wide consensus is, however, that Figueres will win easily.

In view of the imminence of this victory, it should be remarked that the degree of Figueres' liberalism remains to be seen. Be that as it may, he is reported to favor the fair treatment of foreign capital, and the record to date reveals that he is definitely pro-United States, pro-democratic, and anti-Communist. Actually, in order to carry through any program, a Costa Rican President needs to have a two-thirds majority in Congress, and as of this writing a substantial body of opinion holds that this will not be forthcoming. It is for these reasons that only Election Day in July will begin to tell what is in store for the country.

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Turning now from politics to finance and more especially to the exchange situation, this can only be described as excellent. Since 1948 Costa Rica has had a favorable balance of trade, ranging from a low of 3,600,000 colones to a high of 9,500,000 colones, with the 1952 figure at 4,000,000 colones. Concurrently, recent balances of payments have been favorable, carrying the Central Bank's holdings of gold and foreign exchange from about \$9,400,000 at the end of 1951 to about \$15,800,000 at the end of 1952, and to an all-time high of about \$25,000,000 in April of the present year. Needless to say, no collection backlog now exists, former arrears of some \$20,000,000 in 1950 having long since been cleaned up, as meanwhile terms to Costa Rica have lengthened out considerably.

Reflecting these favorable factors, the free rate for the colon has come down from a high point of almost 9 per dollar in 1949 to the present selling rate at the Central Bank of 6.65 per dollar, at which the large majority of transactions are consummated. The official rate, on the other hand, available principally for the importation of articles of prime necessity, is 5.67 colones per dollar, selling, at the Central Bank. In view of Costa Rica's strong exchange position, there is considerable talk that the colon's free rate may improve still further, which would seem altogether possible, and that the official rate may be somewhat raised, so that eventually the two would coincide and there would just be the one rate.

It is not the function of this report to give a detailed account of Costa Rican exchange workings, although actually the subject may be summarized very briefly. No import licenses are necessary, and imports made at the free rate are subject to no control whatsoever. Exchange for importations at the official rate is available against authorizations granted once a week by the Central Bank. No export may be made without an export license, and all exchange arising therefrom must be sold in the official market. Foreign capital, if duly registered with the Central Bank and having entered at the official rate, may obtain official exchange for purposes of remittance, up to 10% of the investment, annually. Foreign capital coming in at the free rate, if duly registered, may resort to the free market to purchase foreign exchange for remittance.

Underlying Costa Rican prosperity, is, of course, a highly favorable agricultural situation, the chief component of which is coffee, accounting for roughly 60% of the country's foreign exchange earnings (bananas account for roughly 20-25%, followed by cacao, accounting for about 8%). The 1952/3 crop has reached the all-time record figure of 700,000 bags (of 46 kilos), which have been sold at favorable prices, while coffee men with whom the writer consulted asserted that the coming crop gives promise of being also highly satisfactory. 1952 exports of bananas equalled the former high point of 11,000,000 stems, which figure should increase still further in view of new developments taking place which will subsequently be described. Other exports, which also give promise of increasing with the passage of time, include now rice, rubber, sugar, beans, and corn; African palm oil is now being produced, and there is the prospect that cattle may eventually come to be exported in some quantity. In short, Costa Rica has now largely attained agricultural self-sufficiency, except for wheat which cannot be grown there, and meanwhile her agricultural base is being strengthened through the technical improvements and transportation developments to which reference is later made in this report.

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Turning from agriculture to business in general, it may be reported that it is excellent, as evidenced by many of the usual indicators including a high level of retail sales, and prompt collections. Inflation, on the other hand, has been held in very close control, as the cost of living has remained remarkably steady over the past four years and declines have actually been registered in wholesale and retail price indices, notwithstanding a 20% rise over the past year in money and deposits, reflecting the increase in reserves. Reasons for this steadiness appear to include the following: 1) minimum pressure on basic agricultural prices; 2) minimum pressure from labor for wage increases; 3) balanced budgets since 1949; 4) lower world prices on many imports; 5) the afore-mentioned decline in the free-market value of the colon.

In the banking field, the nationalized banking system is reported to be doing a good job, with the former competition for business now replaced by competition only in service. Reserve requirements are 20% against sight deposits, 10% against time, and various ratios govern deposits, loans, and holdings of foreign exchange, all of which is generally considered to have placed the system as a whole in a strong position. Bank loans rose about 15% during 1952, and money is tight in Costa Rica, although interest rates are controlled, 90-day money going at 6% and loans up to a year at 8%, the rediscount rates at the Central Bank being 3% and 4% respectively. Authorization has been granted for the banks to make long term loans of 6-15 years, essentially for developmental purposes, with interest rates at the level just mentioned, although in practice only one of the banks has so far taken advantage of this possibility.

Lowest paid labor in Costa Rica presently receives a basic wage of the equivalent of about 10 cents per hour, which is reviewed annually by a government Wage Commission and, which may be increased in the event of a Figueres victory in July. Government mediation and arbitration in labor disputes has allegedly worked out satisfactorily for all concerned, and strikes have accordingly been kept at a bare minimum. Costa Rica, has, moreover, a modified form of Social Security which provides some benefits and which has the prospect of further expansion. There are various labor unions in the country but under the circumstances they are not really a force, and in general it may be said that the labor situation is quiet. To this it may be added that Communism has been reduced to a bare minimum.

Any account of Costa Rica must also include a reference to the country's general economic development, which is going along at a quickening pace. In the field of agriculture, various technical programs are now contributing to an enlargement of the agricultural potential through improvement of present methods and present crop strains, as well as expansion of the very small percentage of the overall acreage now under cultivation. Concurrently, private capital is currently engaged in a \$50,000,000 development of new banana lands on the Caribbean coast. In the field of transportation, work is progressing on the Inter-American highway, whose Costa Rican extension lacks only about 130 miles and whose eventual full completion will unquestionably prove a tremendous economic boon not only to that country but to Central America, as a whole; also, work is progressing on a large, new international airport being built entirely with Costa Rican funds. In the field of electric power, private

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work is going ahead on new thermal electric plants, while Costa Ricans talk of obtaining new foreign loans for further developments of this sort, the prospect for which has certainly been improved by a reorganization of the previously-defaulted foreign debt, with the final paydown now scheduled for 1973. Private capital is exploring for oil, although little has been found to date, and the outlook seems problematical. At any rate, the Costa Rican tax structure, with a top rate of 15%, is encouraging to a further inflow of foreign capital, as will be the elimination this year of the 10% capital levy to which reference has already been made and which proved highly unpopular both at home and abroad. Meanwhile, other technical programs are improving the country's health, and study is being given to an immigration policy that might eventually increase the country's present, small population of some 838,000.

The fact of Costa Rica's basic stability, placing it in a highly favored position among the Latin American nations, should perhaps be emphasized again, especially in considering the long range outlook for achievement of the prospects that have been mentioned. The more immediate outlook would seem to depend in the first instance on world prices for coffee and bananas, and in the second on the development of a political situation whose outcome at the moment is difficult to foretell.